

# **Family Health Centers of San Diego, Inc.**

San Diego, California

## **Consolidated Financial Statements with Supplementary Information and Independent Auditors' Report**

*For the Years Ended June 30, 2014 and 2013*

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2014*



# Family Health Centers of San Diego, Inc.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Family Health Centers of San Diego, Inc. ("Health Center"), a California not-for-profit organization, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements as a whole.

### *Consolidating and Individual Financial Statements*

The consolidating and individual financial statements of the Health Center and the FHCSD Community Services LLC, are presented for purposes of additional analysis and are not a required part of the financial statements.

### *Schedule of Expenditures of Federal Awards*

The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements.

Both the consolidating and individual financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Paul J. McGeady CPA". The signature is written in a cursive, flowing style.

San Diego, California  
November 7, 2014

## **CONSOLIDATED FINANCIAL STATEMENTS**

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**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 29,516,271	\$ 21,217,118
Restricted cash and cash equivalents	569,292	8,427,101
Investments	1,349,009	1,385,626
Patient accounts receivable, net of contractual allowances of \$3,176,475 and \$2,555,579 at June 30, 2014 and 2013, respectively	10,786,566	9,365,841
Grants and contracts receivable	4,669,473	4,455,922
Other receivables	2,083,619	2,118,239
Inventories	209,438	206,797
Prepaid items	753,893	1,048,803
<b>Total current assets</b>	<b>49,937,561</b>	<b>48,225,447</b>
<b>Noncurrent assets:</b>		
Loans receivable	6,197,000	6,197,000
Deposits	341,070	196,619
Property and equipment, net	70,210,076	53,316,753
Deferred charges, net	450,848	474,169
<b>Total noncurrent assets</b>	<b>77,198,994</b>	<b>60,184,541</b>
<b>Total assets</b>	<b>\$ 127,136,555</b>	<b>\$ 108,409,988</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 4,562,736	\$ 3,673,471
Accrued expenses	5,180,150	4,512,733
Accrued tax liabilities	5,000	30,000
Deferred revenue	943,875	35,661
Long-term debt, current portion	113,184	3,405,184
<b>Total current liabilities</b>	<b>10,804,945</b>	<b>11,657,049</b>
<b>Noncurrent liabilities:</b>		
Long-term debt, net of current portion	11,736,200	11,875,000
<b>Total noncurrent liabilities</b>	<b>11,736,200</b>	<b>11,875,000</b>
<b>Total liabilities</b>	<b>22,541,145</b>	<b>23,532,049</b>
<b>Net Assets:</b>		
Unrestricted	103,460,552	83,564,183
Temporarily restricted	1,134,858	1,313,756
<b>Total net assets</b>	<b>104,595,410</b>	<b>84,877,939</b>
<b>Total liabilities and net assets</b>	<b>\$ 127,136,555</b>	<b>\$ 108,409,988</b>

See accompanying Notes to the Consolidated Financial Statements.

**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Activities**  
**For the Years Ended June 30, 2014 and 2013**

	2014	2013
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>		
<b>Revenue and other support:</b>		
Net patient service revenue	\$ 73,411,838	\$ 62,641,476
Grant revenue:		
Federal	19,948,264	18,656,992
State	119,629	15,278
County	11,959,972	11,509,161
City	191,341	548,241
Other	544,263	1,029,081
Net assets released from restrictions - programs	1,938,371	888,947
Donated services and materials	302,345	345,221
Pharmacy income	14,933,069	11,912,778
Other	2,348,772	3,434,048
<b>Total unrestricted revenue and other support</b>	<b>125,697,864</b>	<b>110,981,223</b>
<b>Expenses:</b>		
Salaries and benefits	70,830,190	61,210,673
Contractual medical services	5,859,207	6,089,305
Medical and pharmaceutical supplies	14,377,865	13,148,962
Space costs	3,690,081	2,909,410
Lab fees	1,179,975	796,298
Other expenses	2,524,547	2,484,856
Interest expense	153,766	250,018
Taxes on unrelated business income	5,000	30,000
Depreciation	2,967,711	2,208,914
Office and educational supplies	958,049	846,716
Communication	733,512	627,266
Minor equipment	2,175,730	1,887,823
Insurance	345,862	304,631
<b>Total expenses</b>	<b>105,801,495</b>	<b>92,794,872</b>
<b>Change in unrestricted net assets</b>	<b>19,896,369</b>	<b>18,186,351</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	1,759,473	991,522
Net assets released from restrictions - programs	(1,938,371)	(888,947)
<b>Changes in temporarily restricted assets</b>	<b>(178,898)</b>	<b>102,575</b>
<b>Increase in net assets</b>	<b>19,717,471</b>	<b>18,288,926</b>
<b>NET ASSETS:</b>		
Beginning of year	84,877,939	66,589,013
End of year	<u>\$ 104,595,410</u>	<u>\$ 84,877,939</u>

See accompanying Notes to the Consolidated Financial Statements.

**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 19,717,471	\$ 18,288,926
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,967,711	2,208,914
Loss on disposal of property and equipment	-	-
Change in operating assets and liabilities:		
Patient accounts receivable	(1,420,725)	(2,562,998)
Grants and contracts receivable	(213,551)	(1,237,906)
Other receivable	34,620	(1,147,294)
Inventories	(2,641)	39,508
Prepaid items and deposits	150,459	(549,952)
Deferred charges	23,321	(453,368)
Accounts payable	889,265	1,600,613
Accrued expenses	667,417	228,438
Accrued tax liabilities	(25,000)	10,000
Deferred revenue	908,214	(2,296)
<b>Net cash provided by operating activities</b>	<b>23,696,561</b>	<b>16,422,585</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(19,861,034)	(8,279,520)
Acquisition of investments	36,617	(249,869)
Issuance of loans	-	(6,197,000)
<b>Net cash (used in) investing activities</b>	<b>(19,824,417)</b>	<b>(14,726,389)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of notes payable	-	13,007,546
Repayment of long-term debt	(3,430,800)	(1,042,763)
<b>Net cash provided by (used in) by financing activities</b>	<b>(3,430,800)</b>	<b>11,964,783</b>
<b>Increase in cash, restricted cash and cash equivalents</b>	<b>441,344</b>	<b>13,660,979</b>
<b>CASH, RESTRICTED CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	29,644,219	15,983,240
End of year	<u>\$ 30,085,563</u>	<u>\$ 29,644,219</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 153,766</u>	<u>\$ 250,018</u>

**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Functional Expenses**  
**For the Years Ended June 30, 2014 and 2013**

2014  
Program Services

	Adults, Specialties & General Medicine	Pediatrics	Family Planning & OB/GYN	Vision Care	Pediatric Development Services	Pharmacy	Laboratory	Radiology	Mental Health	Dental	Health Education
<b>Expenses:</b>											
Salaries and Benefits	\$15,962,736	\$ 3,326,791	\$ 8,813,999	\$ 463,632	\$ 4,109,480	\$ 302,374	\$ 2,417,102	\$ 200,562	\$ 5,121,992	\$ 3,967,432	\$ 3,676,648
Contractual Medical Services	306,397	241,485	3,386	-	2,274,625	14,402	-	59,742	199,421	28,923	588,141
Medical and Pharmaceutical Supplies	10,023,877	446,346	610,571	90,371	2,981	137,446	1,780,420	8,709	642,283	347,926	256,741
Space Costs	166,488	32,679	109,636	5,170	13,841	4,902	67,991	16,791	57,929	86,734	220,247
Lab Fees	16,724	11,789	2,565	41,331	-	-	899,451	-	-	190,739	15,066
Other Expenses	1,644,869	57,278	289,420	518	412,916	43,896	221,732	-	439,551	60,942	961,962
Interest Expense	-	-	-	-	-	-	-	-	-	-	-
Taxes on Unrelated Business Income	-	-	-	-	-	-	-	-	-	-	-
Depreciation	40,422	-	9,400	7,814	-	15,741	28,012	144,907	-	142,072	-
Office and Educational Supplies	119,533	29,308	92,550	2,319	64,073	7,761	31,889	1,169	28,406	62,023	67,459
Communication	52,566	2,308	3,799	65	4,498	-	690	364	17,288	11,142	28,819
Minor Equipment	628,691	29,557	87,551	995	70,730	1,913	59,790	1,272	39,163	172,375	44,085
Insurance	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>\$28,962,303</b>	<b>\$ 4,177,541</b>	<b>\$10,022,877</b>	<b>\$ 612,215</b>	<b>\$ 6,953,144</b>	<b>\$ 528,435</b>	<b>\$ 5,507,077</b>	<b>\$ 433,516</b>	<b>\$ 6,546,033</b>	<b>\$ 5,070,308</b>	<b>\$ 5,859,168</b>

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**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Functional Expenses (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

	2014									
	Program Services					Management & General				
	Homeless	Medical Records	Registration	Total Program Services	Facility	Admin	Total Management & General	FHCS Community Services	Fundraising	Total
<b>Expenses:</b>										
Salaries and Benefits	\$ 1,139,433	\$ 1,661,021	\$ 1,469,216	\$52,632,418	\$ 2,009,213	\$15,609,681	\$17,618,894	\$ -	\$ 578,878	\$ 70,830,190
Contractual Medical Services	927,835	1,000	-	4,645,357	634,213	479,967	1,114,180	97,446	2,224	5,859,207
Medical and Pharmaceutical Supplies	28,886	-	-	14,376,557	1,013	295	1,308	-	-	14,377,865
Space Costs	1,411	115,765	10,153	909,737	2,064,077	709,843	2,773,920	-	6,424	3,690,081
Lab Fees	706	-	-	1,178,371	1,604	-	1,604	-	-	1,179,975
Other Expenses	632,935	5,696	7,287	4,779,002	123,892	(2,418,545)	(2,294,653)	-	40,198	2,524,547
Interest Expense	-	-	-	-	-	153,766	153,766	-	-	153,766
Taxes on Unrelated Business Income	-	-	-	-	-	5,000	5,000	-	-	5,000
Depreciation	-	14,842	-	403,210	1,766,738	655,340	2,422,078	141,739	684	2,967,711
Office and Educational Supplies	4,585	22,376	20,831	554,282	70,194	332,594	402,788	-	979	958,049
Communication	5,766	3,054	-	130,359	182,616	416,267	598,883	-	4,270	733,512
Minor Equipment	9,410	69,706	6,404	1,221,642	185,983	763,084	949,067	-	5,021	2,175,730
Insurance	-	-	-	-	214,940	130,922	345,862	-	-	345,862
<b>Total expenses</b>	<u>\$ 2,750,967</u>	<u>\$ 1,893,460</u>	<u>\$ 1,513,891</u>	<u>\$80,830,935</u>	<u>\$ 7,254,483</u>	<u>\$16,838,214</u>	<u>\$24,092,697</u>	<u>\$ 239,185</u>	<u>\$ 638,678</u>	<u>\$ 105,801,495</u>

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**Family Health Centers of San Diego, Inc.**  
**Consolidated Statements of Functional Expenses (Continued)**  
**For the years ended June 30, 2014 and 2013**

2013																
Program Services																
	Adults, Specialties & General Medicine	Family			Vision Care	Pediatric		Pharmacy	Radiology	Laboratory	Mental		Dental	Health		
		Pediatrics	Planning & OB/GYN	Development Services		Health	Education									
Expenses:																
Salaries and Benefits	\$13,939,502	\$ 2,863,818	\$ 8,363,290	\$ 446,016	\$ 3,392,690	\$ 277,263	\$ 2,155,403	\$ 29,918	\$ 4,007,722	\$ 3,779,007	\$ 3,247,477					
Contractual Medical Services	258,786	224,580	16,800	-	2,389,849	38,341	-	6,170	348,279	42,511	628,047					
Medical and Pharmaceutical Supplies	8,647,586	566,273	686,601	100,849	1,204	267,480	1,554,802	11,518	515,414	494,476	265,171					
Space Costs	127,601	34,835	113,249	5,198	19,113	6,379	64,070	9,519	65,326	98,542	179,146					
Lab Fees	33,280	9,146	50,199	36,637	-	-	518,347	-	-	146,484	2,205					
Other Expenses	1,504,505	44,123	230,026	2,792	382,776	43,542	175,141	1,677	422,414	57,702	1,022,882					
Interest Expense	-	-	-	-	-	-	-	-	-	-	-					
Taxes on Unrelated Business Income	-	-	-	-	-	-	-	-	-	-	-					
Depreciation	79,311	-	-	8,370	-	-	25,860	-	-	95,063	-					
Office and Educational Supplies	109,603	19,246	85,374	2,674	53,359	7,204	28,478	1,075	43,958	44,072	63,737					
Communication	22,137	2,021	3,805	-	884	-	635	183	21,373	13,631	14,776					
Minor Equipment	303,361	52,251	86,191	5,586	62,831	6,919	29,740	306,820	36,751	70,098	102,835					
Insurance	-	-	-	-	-	-	-	-	-	-	-					
Total expenses	\$25,025,672	\$ 3,816,293	\$ 9,635,535	\$ 608,122	\$ 6,302,706	\$ 647,128	\$ 4,552,476	\$ 366,880	\$ 5,461,237	\$ 4,841,586	\$ 5,526,276					

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**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 1 - Organization**

Family Health Centers of San Diego, Inc. ("Health Center"), a California not-for-profit organization was organized and incorporated in May 1973, for the purpose of providing affordable, high quality health care services to all persons in San Diego. The Health Center, formerly known as the Logan Heights Family Health Center, serves individuals at all income levels, with a special commitment to low income, uninsured individuals.

The Health Center provides health services at the following locations:

1. Beach Area Family Health Center
2. Chase Avenue Family Health Center
3. Chula Vista Family Health Center
4. FamilyHealth at City College
5. City Heights Family Health Center
6. Diamond Neighborhoods Family Health Center
7. Downtown Family Health Center
8. DTFHC at Connections
9. Elm Street Family Health Center
10. Grossmont Spring Valley Family Health Center
11. Lemon Grove Family Health Center
12. Logan Heights Family Counseling Center
13. Logan Heights Family Health Center
14. North Park Family Health Center
15. Rice Family Health Center
16. Sherman Heights Family Health Center
17. Teen Health Center

In 1998, the mobile medical unit, referred to as KidCare Express, commenced operations at various school sites and parks. Currently, the Health Center operates three mobile medical units.

The Health Center derives its support through grants and contracts with the U.S. Department of Health and Human Services, the State of California, the County of San Diego, and other grantors. Additionally, revenues are derived from patient fees and third-party charges.

**FHCSD Community Services, LLC**

On December 14, 2012 the Health Center created the FHCSD Community Services, Inc ("Community Services") as a Internal Revenue Code ("IRC") Section 509(a)(3) supporting organization. The specific purpose of Community Services is to support the charitable and educational activities of the Health Center. All transactions performed by Community Services are consolidated with the Health Center. Certain inter-entity transactions have been eliminated.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board ("FASB"), commonly referred to as accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Basis of Accounting***

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP, which are presented on the accrual basis of accounting. Under the accrual basis of accounting, The Health Center recognizes contributions as revenue in the period received and expenses or losses are recognized in the period the liability is incurred. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions.

***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

***Investments***

The Health Center accounts for investments according to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320-10, *Investments – Debt and Equity Securities*. As such, investments in equity securities and debt securities held by the Health Center at June 30, 2014 and 2013, are classified as available-for-sale, and stated at their fair market value based on quoted prices. Unrealized gain or loss in fair value of investments is included in other income in the statement of activities. Realized gains or losses from the sale of these investments are computed based on specific identification of historical cost.

***Receivables, Contractual Allowances, and Uncollectible Accounts***

Accounts receivable are recorded on the accrual basis at full billing rates for all classes of patients. Contractual allowances reduce receivables and revenues to net realizable amounts based on Medicare and Medi-Cal regulations and based on the management’s valuation of the private accounts. The Health Center also estimates an allowance for doubtful accounts related to patients who do not have the ability to pay.

***Inventories***

The Health Center’s inventories are comprised of medical, dental, laboratory, pharmaceutical, and office supplies. Inventories are carried at the lower of cost or market value on the first-in, first-out basis.

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid expenses.

***Property and Equipment***

Property and equipment are recorded at cost. The Health Center capitalizes all acquisitions equal to or greater than \$5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

	<u>Years</u>
Buildings	15 - 30
Improvements	15 - 30
Equipment, furniture and fixtures	3 - 10

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Deferred Charges***

Deferred charges consisted of debt issuance cost, are capitalized and amortized over the life of the debt.

***Net Assets***

Net assets are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the Health Center may spend the funds. Temporarily restricted donations for fixed assets are released when the assets are placed into service.

Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the principle be maintained in perpetuity.

At June 30, 2014 and 2013, the Health Center did not have any permanently restricted net assets.

***Net Patient Service Revenue***

Net patient service revenue is reported at the Health Center's established rates adjusted for sliding fee discounts at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Revenue recognized for services rendered to Medicare program beneficiaries is recorded and paid based on a cost-per-visit. The administrative procedures related to this program generally preclude final determination of amounts due to or from the Health Center until an annual cost report, filed by the Health Center, is audited or otherwise reviewed and approved by the applicable administrative agency. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

Revenue reported for services to Medi-Cal program covered patients is based upon the Prospective Payment System (PPS), which has been adopted by the State of California since 2001. The Health Center's initial rate for PPS in July 2001 was its cost per visit rate as of June 30, 2000, subsequently adjusted by the Medical Economic Index (MEI) annually and any approved change-in-scope requests.

***Contributions***

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Grant Revenue and Deferred Revenue***

The policy of the Health Center is to recognize revenue from all contracts to the extent of eligible costs incurred up to an amount not to exceed the total contract authorized. Deferred revenues result from revenue received from contracts that are applicable to a subsequent period.

***Charity Care***

The Health Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria. Because the Health Center does not pursue collection of amounts determined to qualify as sliding fee scale discounts, such amounts are not reported as revenue in the accompanying financial statements. Charges foregone for services furnished by the Health Center totaled \$4,531,732 and \$4,634,795 for years ended June 30, 2014 and 2013, respectively.

***Donated Services and Materials***

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Health Center. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria was not met.

***Income Taxes***

The Health Center has been recognized as a not-for-profit organization under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701(d) and is exempt from Federal and California income taxes on related income. For the years ended June 30, 2014 and 2013, the Health Center generated revenue from an unrelated business activity and was taxed accordingly. See Note 15 for details.

Effective July 1, 2009, the Health Center adopted newly issued guidance on *Accounting for Uncertainty in Income Taxes*. Under this new guidance, the Health Center utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

As a result of the adoption of *Accounting for Uncertainty in Income Taxes*, the Health Center did not recognize an increase or decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods; therefore, there was no corresponding adjustment to unrestricted net assets. Additionally, for the year ended June 30, 2014, there were no additional liabilities recorded for unrecognized tax benefits related to tax positions taken in the current year. The Health Center considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes.

There were no accruals for interest and penalties related to uncertain tax positions at the inception date or for the years ended June 30, 2014 and 2013.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Use of Accounting Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Fair Value of Financial Instruments***

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments and, with none being held for trading purposes, approximate the carry values of such amounts.

Accounting principles generally accepted in the United States of America define fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurements. Assets and liabilities recorded at fair value in the Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

**Level 1** – Quoted market prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For cash and cash equivalents, the Health Center uses the carrying amounts, which approximate fair value due to their short maturity.

For long-term investments, fair values of investments were obtained based on quoted market prices at the closing of the last business day of the year from the respective major U.S. exchanges where such publicly traded equity securities are traded.

For long-term debt borrowings, the fair values are estimated using discounted cash flow analysis, based on the Health Center's current incremental borrowing rates for similar types of borrowing arrangements. As of June 30, 2014 and 2013, the fair values of long-term debt borrowings were not considered to be materially different from the recorded values.

**Note 3 – Cash and Investments**

Cash and investments are reported in the accompanying consolidated statements of financial position as follows:

	2014	2013
Cash and cash equivalents	\$ 29,516,271	\$ 21,217,118
Restricted cash and cash equivalents	569,292	8,427,101
Investments	1,349,009	1,385,626
<b>Total cash and investments</b>	<b>\$ 31,434,572</b>	<b>\$ 31,029,845</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

**Note 3 – Cash and Investments (Continued)**

Cash and investments consisted of the following:

	2014	2013
<b>Cash and cash equivalents:</b>		
Demand deposits	\$ 29,953,933	\$ 29,512,952
Money market funds	131,630	131,267
<b>Total cash and cash equivalents</b>	<b>30,085,563</b>	<b>29,644,219</b>
<b>Investments:</b>		
Certificates of deposits	757,441	756,480
Equities	591,568	629,146
<b>Total investments</b>	<b>1,349,009</b>	<b>1,385,626</b>
<b>Total cash and investments</b>	<b>\$ 31,434,572</b>	<b>\$ 31,029,845</b>

***Cash Deposits***

Cash, restricted cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months at purchase. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The carrying amounts of cash deposits were \$29,953,933 and \$29,512,952 at June 30, 2014 and 2013, respectively, which were fully insured and/or collateralized with securities held by the pledging financial institutions in the Health Center's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Health Center's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Health Center's name.

The fair value of pledged securities must equal at least 110% of the Health Center's cash deposits. California law also allows institutions to secure the Health Center's deposits by pledging first trust deed mortgage notes having a value of 150% of the Health Center's total cash deposits. The Health Center may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Health Center, however, has not waived the collateralization requirements.

***Investments***

At June 30, 2014 and 2013, investments, at fair value, consisted of the following:

	2014			2013		
	Amount Invested	Percentage of Investments	Measurement Input	Amount Invested	Percentage of Investments	Measurement Input
Certificate of Deposits	\$ 757,441	56.15%	Level 1	\$ 756,480	54.59%	Level 1
Equities	591,568	43.85%	Level 1	629,146	45.41%	Level 1
<b>Total investments</b>	<b>\$ 1,349,009</b>	<b>100.00%</b>		<b>\$ 1,385,626</b>	<b>100.00%</b>	

Financial instruments potentially subjecting the Health Center to concentration of credit risk consist of cash held in investment securities accounts in excess of the Securities Investor Protection Corporation ("SIPC") insurance threshold for equity securities. Investment securities are exposed to various risks, such as credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the financial statements. The risk associated with the investments is mitigated through diversification.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

**Note 4 – Patient Accounts Receivable**

Patient accounts receivable consisted of the following:

	2014			2013		
	Receivable	Contractual Allowance	Net	Receivable	Contractual Allowance	Net
Fee for service	\$ 4,237,373	\$ (1,715,997)	\$ 2,521,376	\$ 4,994,770	\$ (1,028,186)	\$ 3,966,584
Medi-Cal	6,194,046	256,914	6,450,960	3,312,972	190,244	3,503,216
Patients	2,048,585	(1,641,340)	407,245	1,954,095	(1,268,913)	685,182
SOFP	542,845	(198,428)	344,417	519,360	(217,770)	301,590
Medicare	940,192	122,376	1,062,568	1,140,223	(230,954)	909,269
<b>Total</b>	<b>\$ 13,963,041</b>	<b>\$ (3,176,475)</b>	<b>\$ 10,786,566</b>	<b>\$ 11,921,420</b>	<b>\$ (2,555,579)</b>	<b>\$ 9,365,841</b>

**Note 5 – Grants and Contracts Receivable**

Grants and contracts receivable consisted of the following:

	2014	2013
Federal grants	\$ 1,986,634	\$ 1,537,467
State grants	46,390	15,277
County grants	2,283,361	2,478,826
Other grants and contracts	353,088	424,352
<b>Total grants and contracts receivable</b>	<b>\$ 4,669,473</b>	<b>\$ 4,455,922</b>

**Note 6 – Property and Equipment**

Property and equipment consisted of the following:

	2014	2013
Land	\$ 19,288,739	\$ 16,634,613
Land improvements	435,647	435,647
Construction in progress	4,489,757	5,582,198
Works of art	39,585	39,585
Buildings	54,043,481	37,800,105
Equipment	6,892,044	10,537,165
Software	2,109,831	1,224,784
Automobiles	159,625	140,625
Leasehold improvements	713,579	722,778
	88,172,288	73,117,500
Accumulated depreciation	(17,962,212)	(19,800,747)
<b>Total property and equipment, net</b>	<b>\$ 70,210,076</b>	<b>\$ 53,316,753</b>

Depreciation expense was \$2,967,711 and \$2,208,914 for the years ended June 30, 2014 and 2013, respectively.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

**Note 7 – Long-Term Debt**

Long-term debt consisted of the following:

	2014	2013
<b>Notes Payable:</b>		
2008 Promissory note payable - Union Bank	\$ 1,758,296	\$ 1,827,242
2010 Promissory note payable - Union Bank	1,361,088	1,405,242
ECLF Promissory note payable	-	3,317,700
ESIC New Markets Partners LIV Ltd. Partnership note payable	8,730,000	8,730,000
<b>Total</b>	11,849,384	15,280,184
Less current portion	(113,184)	(3,405,184)
<b>Total long-term debt</b>	<u>\$ 11,736,200</u>	<u>\$ 11,875,000</u>

*2008 Promissory Note Payable – Union Bank*

On March 12, 2008, the Health Center issued a promissory note to Union Bank in the amount of \$2,062,500. The note bears an interest rate of 3.45%. The purpose of the note was to purchase property for the Chula Vista Clinic location.

The annual debt service requirements for the note outstanding at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 67,482	\$ 59,601	\$ 127,083
2016	69,847	57,235	127,082
2017	72,295	54,787	127,082
2018	74,829	52,253	127,082
2019	77,452	49,630	127,082
Thereafter	1,396,391	361,587	1,757,978
<b>Total</b>	<u>\$ 1,758,296</u>	<u>\$ 635,093</u>	<u>\$ 2,393,389</u>

*2010 Promissory Note Payable – Union Bank*

On April 1, 2010, the Health Center issued a promissory note to Union Bank in the amount of \$1,500,000. The note bears an interest rate of 3.45%. The purpose of the note was to purchase property for the Lemon Grove Clinic location.

The annual debt service requirements for the note outstanding at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 45,702	\$ 46,239	\$ 91,941
2016	47,304	44,637	91,941
2017	48,962	42,979	91,941
2018	50,678	41,263	91,941
2019	52,454	39,487	91,941
Thereafter	1,115,988	19,058	1,135,046
<b>Total</b>	<u>\$ 1,361,088</u>	<u>\$ 233,663</u>	<u>\$ 1,594,751</u>



**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 7 – Long-Term Debt (Continued)**

*Enterprise Community Loan Fund (ECLF) Promissory Note Payable*

On April 2, 2013, the Health Center issued a promissory note in the amount of \$4,277,546 to the Enterprise Community Loan Fund, Inc. for a bridge loan related to the New Markets Tax Credit financing. The purpose of the note is to acquire property, undertake development and construction of the Diamond Neighborhoods Family Health Center and to acquire fixtures, furniture and equipment as required to operate a health center in that location. Repayment of the note is funded by a grant from the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA), which reimburses the Health Center for actual expenditures of bridge loan proceeds incurred. These reimbursement payments from HRSA are then applied to the note balance by the Health Center. No fixed principal and interest payment schedule exists. The bridge loan was paid in full as of June 30, 2014.

*ECIC New Markets Partners LIV Limited Partnership Promissory Note Payable*

On April 2, 2013, FHCS Community Services, LLC (“Community Services”) issued a promissory note to ESIC New Market Partners LIV Limited Partnership in the amount of \$8,730,000. The maturity date of the note is March 31, 2043 and it bears an interest rate of 0.71%. The purpose of the note was to pay closing costs associated with issuing the note, fund reserve accounts, and fund a construction account in order to purchase property and finance construction for the Diamond Neighborhoods Clinic location. The note is guaranteed by the Health Center.

The annual debt service requirements for the note outstanding at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 61,983	\$ 61,983
2016	-	61,983	61,983
2017	-	61,983	61,983
2018	-	61,983	61,983
2019	-	61,983	61,983
Thereafter	8,730,000	848,402	1,446,599
Total	<u>\$ 8,730,000</u>	<u>\$ 1,158,317</u>	<u>\$ 1,756,514</u>

**Note 8 – Line-of-Credit**

The Health Center has a line-of-credit with Union Bank in the amount of \$1,000,000, which is set to expire on February 1, 2015. Interest is payable monthly at prime, plus 1 percent (3.25 percent at June 30, 2014) on any outstanding balance. There was no outstanding balance at June 30, 2014 and 2013.

**Note 9 – Risk Management**

*General Liability and Workers’ Compensation*

The Health Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; job-related illnesses or injuries to employees; and natural disasters for which the Health Center carries commercial insurance. The Health Center purchases commercial insurance to cover the risk of loss for property, business liability, and medical payments.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 9 – Risk Management (Continued)**

***Medical Malpractice Claims***

The U.S. Department of Health and Human Services has deemed the Health Center and its practicing physicians covered under the Federal Tort Claims Act (“FTCA”) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. There are no known claims being managed by the Department of Justice.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Health Center’s claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 10 – Commitments and Contingencies**

***Grants and Contracts***

The Health Center has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not be material.

***Lease Commitments***

The Health Center has commitments under operating lease agreements. The aggregate future rental costs for which the Health Center is obligated under the agreements are as follows:

Year Ending June 30,	Amount
2015	\$ 365,976
2016	282,685
2017	150,178
2018	110,012
2019	110,012
Thereafter	860,706
<b>Total</b>	<b>\$ 1,879,569</b>

Rent expense under various operating leases totaled \$699,321 and \$573,388 for the years ended June 30, 2014 and 2013, respectively. The Health Center has an agreement to use certain real property for the exclusive purpose of providing vehicle parking for the Health Center’s employees. No monthly rental payments are required.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

**Note 10 – Commitments and Contingencies (Continued)**

***Construction Contracts***

The Health Center has signed contracts with various contractors for construction projects. As of June 30, 2014, balances remaining on the contracts consisted of the following:

Location	Contract Amount	Paid through June 30, 2014	Remaining Balance
Chula Vista Family Health Center	\$ 324,950	\$ (172,937)	\$ 152,013
Ibarra Family Health Center	847,026	(76,050)	770,976
Lockridge	170,200	-	170,200
<b>Total</b>	<b>\$ 1,342,176</b>	<b>\$ (248,987)</b>	<b>\$ 1,093,189</b>

**Note 11 – Retirement Plan**

In 1992, the Board of Directors approved a defined contribution retirement plan for the Health Center's employees under Internal Revenue Code 403(b). The plan is designed to provide an incentive for substantially all employees to contribute to a retirement program, as well as provide a benefit to all employees. Plan eligibility begins after one year of service and benefits are vested 100 percent to participants at that time.

The Health Center contributes for employees based on contributions for years of service up to a maximum of 5 percent for both contributions and matching. During the years ended June 30, 2014 and 2013, the Health Center contributed \$1,404,068 and \$1,207,124, respectively, on behalf of participating employees.

**Note 12 – Concentration of Credit Risk**

The Health Center is reimbursed for services provided to patients under certain programs administrated by governmental agencies. Revenue from Medicare, Medi-Cal, and other federal, state or county funding sources amounted to approximately 69% and 68% of total revenue for 2014 and 2013, respectively. Laws and regulations governing these programs are complex. The Health Center believes it is in compliance with all the applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from participating in these programs.

	2014	2013
Medicare	\$ 2,968,414	\$ 2,442,660
Medi-Cal	25,925,742	19,915,684
Federal, State & County Grants	32,119,206	30,181,431
Other governmental funding	25,566,247	23,423,474
Subtotal	<u>\$ 86,579,609</u>	<u>\$ 75,963,249</u>
<b>Total unrestricted revenue</b>	<u><b>\$ 125,697,864</b></u>	<u><b>\$ 110,981,223</b></u>
<b>Percentage</b>	<u><b>69%</b></u>	<u><b>68%</b></u>

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 13 – New Market Tax Credit Financing**

***New Market Tax Credit***

On April 2, 2013, the Health Center entered into a loan in the form of a note payable with Chase NMTC FHCSF Investment Fund, LLC (the “Lender”). As a result of making the loans, the Lender is eligible for federal income tax credits under the New Markets Tax Credits (“NMTC”) implemented by Congress in December 2000.

Pursuant to the Qualified Active Low-Income Community Businesses (the “QALICB”) Unconditional Guaranty of the NMTCs, Put Price & Environmental Indemnification (the “Indemnification Agreement”) dated April 2, 2013, in the occurrence of an event or condition that results in a recapture of all or any portion of NMTCs (“Recapture Event”), the Health Center, shall pay the NMTC Recapture Amount, as defined in the Indemnification Agreement, to the NMTC Investor, but only if and to the extent that such recapture event is the result of:

- i. The Health Center not being or ceasing to be a QALICB;
- ii. A redemption by the Community Development Entity (“CDE”) caused directly or indirectly by the Health Center;
- iii. The failure of any tenant or subtenant of the Health Center to be classified as a Qualified Business;
- iv. The failure of the CDE to meet the substantially all requirements attributable to a prepayment of the loan by the Health Center in violation of the loan agreement; or
- v. Any gross negligence, fraud, willful misconduct, malfeasance, material violation of any law by the Health Center; or

Any inaccuracy in or misrepresentation of amounts represented by the Health Center to the NMTC Investor leads, directly or indirectly, to recapture of disallowance of NMTC.

***Loans Receivable***

Pursuant to Promissory Note between Chase NMTC FHCSF Investment Fund, LLC (the “Investment Fund”) and the Health Center (the “Leverage Lender”) dated April 2, 2013, the Leverage Lender made a loan to the Investment Fund in the principal amount of \$6,197,000. The Investment Fund agreed to repay the principal amount, plus interest in the amount of 1.0% on the unpaid principal balance from April 2, 2013, until the loan is due and payable on March 31, 2043 (the “Leverage Loan Maturity Date”). Interest is payable in quarterly installments commencing June 10, 2013, and on the 10<sup>th</sup> day of each March, June, September and December of each year thereafter until and including March 10, 2020. Beginning March 1, 2020, and continuing until and including the quarterly installment due immediately prior to the Maturity Date, the principal balance of the loan accrues interest at 1.0%, and principal and accrued interest through the end of the immediately preceding calendar month are payable by the Investment Fund in arrears in consecutive quarterly installments commencing June 10, 2020 and on the 10<sup>th</sup> day of each March, June, September and December thereafter. The amount of the quarterly installment of principal and interest payable will fully amortize the unpaid principal balance as of the Maturity Date. As of June 30, 2014 and 2013, the loan receivable principal balance was \$6,197,000 and \$6,197,000, respectively.

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 14 – Temporarily Restricted Net Assets**

At June 30, 2014 and 2013, temporarily restricted net assets consisted of the following:

	2014	2013
Medical and dental equipment	\$ 219,210	\$ 49,844
Operations improvement program	164,276	200,466
Healthcare for uninsured and underinsured	258,331	163,999
Health education	121,938	7,017
City Heights FHC capital project	-	717,881
Other program restrictions (less than \$50,000 individually)	371,103	174,549
<b>Total</b>	<b>\$ 1,134,858</b>	<b>\$ 1,313,756</b>

For the years ended June 30, 2014 and 2013, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or from satisfying time restrictions as follows:

	2014	2013
City Heights FHC capital project	\$ 717,881	\$ 105,461
Purchase of medical and dental equipment	409,134	138,964
Operations improvement program	275,807	69,417
Reproductive health	101,619	88,367
Other program restrictions (less than \$50,000 individually)	433,930	486,738
<b>Total</b>	<b>\$ 1,938,371</b>	<b>\$ 888,947</b>

**Note 15 – Components of Changes in Unrestricted Net Assets**

For the years ended June 30, 2014 and 2013, changes in unrestricted net assets were \$19,901,369 and \$18,186,351, respectively. The changes in unrestricted net assets were generated from the following components:

	2014	2013
From operations	\$ 3,543,890	\$ 1,132,480
From non-operational settlements, performance payments or community benefit program	9,763,920	11,164,094
From grants for purchase of long-lived assets	6,588,559	5,889,777
<b>Change in unrestricted net assets</b>	<b>\$ 19,896,369</b>	<b>\$ 18,186,351</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**For the Years Ended June 30, 2014 and 2013**

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**Note 16 – Unrelated Business Income**

The Health Center purchased tenant-occupied properties. As a stipulation of the property purchase agreements, the Health Center agreed to honor previously existing lease contracts with the tenants of the purchased properties and generated unrelated business income. The following is a condensed summary of the unrelated business income tax calculation for the years ended June 30, 2014 and 2013:

	2014	2013
Unrelated rental income	\$ 162,301	\$ 174,657
Deduct: associated expenses	(141,369)	(119,695)
Taxable unrelated business income	\$ 20,932	\$ 118,471
Accrued tax liabilities	\$ 5,000	\$ 30,000

**Note 17 – Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Health Center recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including estimates inherent in the process of preparing the financial statements. The Health Center's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The Health Center has evaluated subsequent events through November 7, 2014, which is the date the financial statements are available to be issued.

On September 4, 2014, the Health Center formed FHCS D HITEC, LLC, a California limited liability company, as a wholly owned subsidiary to facilitate financing, development and construction of a new training facility and an additional federally qualified health center to be operated by the Health Center.

On September 5, 2014, the Health Center formed FHCS D Growth Fund, Inc., a 509(a)(3) nonprofit Public Benefit Corporation, as a wholly owned subsidiary whose purpose is to support the charitable and educational activities of the Health Center.

On November 5, 2014, the Health Center entered into an agreement with U.S. Bank, N.A. for a 2.93% fully amortized unsecured seven-year loan in the amount of \$10,000,000 for the purpose of funding the HITEC Project and re-financing two existing Union Bank loans that were secured for the completion of the Chula Vista and Lemon Grove properties.

## **SUPPLEMENTARY INFORMATION**

**Family Health Centers of San Diego, Inc.**  
**Consolidating Schedule of Financial Position**  
**June 30, 2014**

	FHCS	FHCS Community Services	Eliminations	Total
	FHCS			
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 29,516,271	\$ -	\$ -	\$ 29,516,271
Investments	1,349,009	-	-	1,349,009
Restricted cash and cash equivalents	72,126	497,166	-	569,292
Patient accounts receivable, net of contractual allowance	10,786,566	-	-	10,786,566
Grants and contracts receivable	4,669,473	-	-	4,669,473
Other receivables	2,083,619	-	-	2,083,619
Inventories	209,438	-	-	209,438
Prepaid items	753,893	-	-	753,893
Total current assets	49,440,395	497,166	-	49,937,561
<b>Noncurrent assets:</b>				
Loans receivable	6,197,000	-	-	6,197,000
Deposits	341,070	-	-	341,070
Property and equipment, net	58,935,696	11,274,380	-	70,210,076
Deferred charges, net	14,183	436,665	-	450,848
Investment in FHCS Community Services	3,104,883	-	(3,104,883)	-
Total noncurrent assets	68,592,832	11,711,045	(3,104,883)	77,198,994
<b>Total assets</b>	<b>\$ 118,033,227</b>	<b>\$ 12,208,211</b>	<b>\$ (3,104,883)</b>	<b>\$ 127,136,555</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 4,081,442	\$ 481,294	\$ -	\$ 4,562,736
Accrued expenses	5,180,150	-	-	5,180,150
Accrued tax liabilities	5,000	-	-	5,000
Deferred revenue	943,875	-	-	943,875
Long-term debt, current	113,184	-	-	113,184
Total current liabilities	10,323,651	481,294	-	10,804,945
<b>Noncurrent liabilities:</b>				
Long-term debt, net of current portion	3,006,200	8,730,000	-	11,736,200
Total noncurrent liabilities	3,006,200	8,730,000	-	11,736,200
<b>Total liabilities</b>	<b>13,329,851</b>	<b>9,211,294</b>	<b>-</b>	<b>22,541,145</b>
<b>Net Assets:</b>				
Unrestricted	103,568,518	(107,966)	-	103,460,552
Temporarily restricted	1,134,858	3,104,883	(3,104,883)	1,134,858
<b>Total net assets</b>	<b>104,703,376</b>	<b>2,996,917</b>	<b>(3,104,883)</b>	<b>104,595,410</b>
<b>Total liabilities and net assets</b>	<b>\$ 118,033,227</b>	<b>\$ 12,208,211</b>	<b>\$ (3,104,883)</b>	<b>\$ 127,136,555</b>



**Family Health Centers of San Diego, Inc.**  
**Consolidating Schedule of Activities**  
**For the year ended June 30, 2014**

	FHCS	FHCS Community Services	Eliminations	Total
	<u>FHCS</u>	<u>Services</u>	<u>Eliminations</u>	<u>Total</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>				
<b>REVENUES AND OTHER SUPPORT:</b>				
Patient service revenue, net	\$ 73,411,838	\$ -	\$ -	\$ 73,411,838
Grant revenue	32,763,469	-	-	32,763,469
Other	14,933,069	-	-	14,933,069
Other	2,209,802	138,970	-	2,348,772
Donations	302,345	-	-	302,345
Net assets released from restriction	1,938,371	-	-	1,938,371
<b>Total revenues and other support</b>	<u>125,558,894</u>	<u>138,970</u>	<u>-</u>	<u>125,697,864</u>
<b>EXPENSES:</b>				
Salaries and benefits	70,830,190	-	-	70,830,190
Contractual medical services	5,761,761	97,446	-	5,859,207
Medical and pharmaceutical supplies	14,377,865	-	-	14,377,865
Space costs	3,690,081	-	-	3,690,081
Lab fees	1,179,975	-	-	1,179,975
Other expenses	2,524,547	-	-	2,524,547
Interest expense	153,766	-	-	153,766
Taxes on unrelated business income	5,000	-	-	5,000
Depreciation	2,825,972	141,739	-	2,967,711
Office and educational supplies	958,049	-	-	958,049
Communication	733,512	-	-	733,512
Minor equipment	2,175,730	-	-	2,175,730
Insurance	345,862	-	-	345,862
<b>Total expenses</b>	<u>105,562,310</u>	<u>239,185</u>	<u>-</u>	<u>105,801,495</u>
<b>Changes in unrestricted net assets</b>	19,996,584	(100,215)	-	19,896,369
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:</b>				
Contributions	1,759,473	1,185,439	(1,185,439)	1,759,473
Net assets released from restrictions	(1,938,371)	-	-	(1,938,371)
<b>Change in temporarily restricted net assets</b>	<u>(178,898)</u>	<u>1,185,439</u>	<u>(1,185,439)</u>	<u>(178,898)</u>
<b>Change in net assets</b>	19,817,686	1,085,224	(1,185,439)	19,717,471
<b>NET ASSETS:</b>				
Beginning of year	84,885,690	1,911,693	(1,919,444)	84,877,939
End of year	<u>\$ 104,703,376</u>	<u>\$ 2,996,917</u>	<u>\$ (3,104,883)</u>	<u>\$ 104,595,410</u>

**Family Health Centers of San Diego, Inc.**  
**Consolidating Schedule of Cash Flows**  
**For the year ended June 30, 2014**

	FHCS	FHCS Community Services	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Increase in net assets	\$ 19,817,686	\$ 1,085,224	\$ (1,185,439)	\$ 19,717,471
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	2,825,972	141,739	-	2,967,711
Change in operating assets and liabilities:				
Patient accounts receivable	(1,420,725)	-	-	(1,420,725)
Grants and contracts receivable	(213,551)	-	-	(213,551)
Other receivable	34,620	-	-	34,620
Inventories	(2,641)	-	-	(2,641)
Prepaid items and deposits	150,459	-	-	150,459
Deferred charges	5,506	17,815	-	23,321
Accounts payable	997,521	(108,256)	-	889,265
Accrued expenses	667,417	-	-	667,417
Accrued tax liabilities	(25,000)	-	-	(25,000)
Deferred revenue	908,214	-	-	908,214
<b>Net cash provided by operating activities</b>	<b>23,745,478</b>	<b>1,136,522</b>	<b>(1,185,439)</b>	<b>23,696,561</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Acquisition of property and equipment	(13,306,023)	(6,555,011)	-	(19,861,034)
Acquisition of investments	36,617	-	-	36,617
Issuance of loans	-	-	-	-
Investments in FHCS Community Services LLC	(1,185,439)	-	1,185,439	-
<b>Net cash used in investing activities</b>	<b>(14,454,845)</b>	<b>(6,555,011)</b>	<b>1,185,439</b>	<b>(19,824,417)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of notes payable	-	-	-	-
Repayment of long-term debt	(3,430,800)	-	-	(3,430,800)
<b>Net cash provided by (used in) by financing activities</b>	<b>(3,430,800)</b>	<b>-</b>	<b>-</b>	<b>(3,430,800)</b>
<b>Increase in cash, restricted cash and cash equivalents</b>	<b>5,859,833</b>	<b>(5,418,489)</b>		<b>441,344</b>
<b>CASH, RESTRICTED CASH AND CASH EQUIVALENTS:</b>				
Beginning of year	23,728,564	5,915,655	-	29,644,219
End of year	<u>\$ 29,588,397</u>	<u>\$ 497,166</u>	<u>\$ -</u>	<u>\$ 30,085,563</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Interest paid	<u>\$ 153,766</u>	<u>\$ -</u>		<u>\$ 153,766</u>

## **SINGLE AUDIT**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditors' Report**

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Family Health Centers of the San Diego, Inc. ("Health Center"), a California not-for-profit organization, which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California  
Page 2

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Ron E. McGeady LLP". The signature is written in a cursive, flowing style.

San Diego, California  
November 7, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

**Independent Auditors' Report**

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

**Report on Compliance for Each Major Federal Program**

We have audited the Family Health Centers of San Diego, Inc.'s (the "Health Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Health Center's major federal programs for the year ended June 30, 2014. The Health Center's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Health Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Health Center's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Health Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of The Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "PUN & Mc Geady LLP". The signature is written in a cursive, stylized font.

San Diego, California  
November 7, 2014



**Family Health Centers of San Diego, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

<b>Federal Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Grant Number/ Contract Number</b>	<b>Federal Expenditures</b>	<b>Pass-through Awards to Subrecipients</b>
<b><u>U.S. Department of Health and Human Services:</u></b>				
<b><u>Direct Programs:</u></b>				
Connecting Kids to Coverage Outreach and Enrollment Grant	93.110	1 Z0CMS331205-01-00	\$ 362,021	\$ -
<b><u>Health Centers Cluster:</u></b>				
Health Centers Cluster - Section 330	93.224	H80CS00224-13-09	11,897,957	1,039,759
ACA Grants for School-Based Health Centers Capital Program	93.501	1 C12CS25596-01-00	106,665	-
ACA Capital Development Grants	93.526	1 C8ACS21259-01-00	4,969,972	-
Capital Development - GW Lab	93.526	6 C8BCS23991-01-02	429,840	-
	<b>93.526 Total</b>		<b>5,399,812</b>	<b>-</b>
Ryan White Part C Outpatient EIS Program	93.918	6 H76HA00150-24-00	707,749	-
Special Projects of National Significance	93.928	1H97HA25090-01-00	373,614	108,544
HIV Prevention Projects - YMC and YT	93.939	5 U22PS000469-05	311,557	78,652
HIV Prevention Projects for CBO	93.939	1 U65PS002617-01	356,789	27,600
	<b>93.939 Total</b>		<b>668,346</b>	<b>106,252</b>
A Male Family Planning Initiative	93.974	5 FPRPA006042-03-00	32,620	-
<b><u>Passed Through California Family Health Council, Inc.:</u></b>				
Title X Family Planning Services	93.217	2500-5320-071209-11	270,343	-
<b><u>Passed Through University of California San Diego</u></b>				
The Hepatitis Care Connections Program - UCSD-CDC	93.736	1U51PS003924-01	109,346	-
<b><u>Passed Through County of San Diego:</u></b>				
HIV Emergency Relief Project - Outreach Services	93.914	536599	82,876	-
HIV Emergency Relief Project - Case Management	93.914	537488	588,273	-
HIV Emergency Relief Project - Counseling and Testing	93.914	544016	51,670	-
HIV Emergency Relief Project - Ryan White Primary Care	93.914	542731	420,033	-
HIV Emergency Relief Project - Outpatient Substance Abuse	93.914	544004	104,910	-
HIV Emergency Relief Project - Minority AIDS Initiative	93.914	541722	327,284	-
	<b>93.914 Total</b>		<b>1,575,046</b>	<b>-</b>
<b><u>Passed Through County of San Diego:</u></b>				
HIV Emergency Relief Project - Care Formula Grants	93.917	542731	252,762	-
Black Infant Health Program - Title V	93.994	541736/544528	237,477	-

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**Family Health Centers of San Diego, Inc.**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2014**

<b>Federal Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Grant Number/ Contract Number</b>	<b>Federal Expenditures</b>	<b>Pass-through Awards to Subrecipients</b>
<b><u>U.S. Department of Health and Human Services, Continued:</u></b>				
<b><u>Passed Through County of San Diego:</u></b>				
<b><u>Medicaid Cluster:</u></b>				
Childhood Lead Poisoning Prevention Program	93.778	519753	57,725	-
Black Infant Health Program - Title XIX	93.778	541736/544528	323,714	-
<b>93.778 Total</b>			<b>381,439</b>	<b>-</b>
<b><u>Passed Through California Department of Public Health</u></b>				
WISEWOMAN Program	93.094	13-20092	80,827	-
California Obesity Prevention Program	93.548	12-10471	25,500	-
<b><u>Passed Through County of San Diego:</u></b>				
Substance Abuse and Mental Health Services Administration	93.959	535066/535893	1,461,271	-
<b><u>Passed Through County of San Diego:</u></b>				
HIV Prevention Activities - Health Department Based	93.940	519828	154,188	-
HIV Prevention Activities - Health Department Based	93.940	519839/547300	76,630	-
HIV Prevention Activities - Health Department Based	93.940	547305	129,282	-
<b>93.940 Total</b>			<b>360,100</b>	<b>-</b>
<b><u>Passed Through County of San Diego:</u></b>				
Expanded HIV Testing in Healthcare Settings	93.943	539516	228,166	-
<b><u>Passed Through County of San Diego:</u></b>				
Comprehensive STD Prevention Systems	93.977	519839	75,000	-
<b>Total U.S. Department of Health and Human Services</b>			<b>24,606,061</b>	<b>1,254,555</b>
<b><u>U.S. Department of Housing and Urban Development:</u></b>				
<b><u>Community Development Block Grant Cluster:</u></b>				
<b><u>Passed through County of San Diego:</u></b>				
Community Development Block Grant	14.218	545630	11,031	-
<b><u>Passed through City of San Diego:</u></b>				
Community Development Block Grant	14.218	n/a	74,825	-
<b><u>Passed through City of Chula Vista:</u></b>				
Community Development Block Grant	14.218	931	13,600	-
<b><u>Passed through City of El Cajon:</u></b>				
Community Development Block Grant	14.218	n/a	38,500	-
<b>Total Community Development Block Grant Cluster</b>			<b>137,956</b>	<b>-</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>137,956</b>	<b>-</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 24,744,017</b>	<b>\$ 1,254,555</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**Family Health Centers of San Diego, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (“Schedule”) includes the federal grant activity of the Family Health Centers of San Diego, Inc. (“Health Center”) under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Health Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Health Center.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**Family Health Centers of San Diego, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	No

Identification of major programs:

<b>Major Program</b>	<b>CFDA Number</b>	<b>Expenditures</b>
Affordable Care Act Grants for Capital Development in Health Centers	93.526	\$ 5,399,812
HIV Emergency Relief Project Grants	93.914	1,575,046
HIV Prevention Activities - Non-Governmental Organization Based	93.939	668,346
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,461,271
<b>Total Major Program Expenditures</b>		<b>\$ 9,104,475</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 24,744,017</b>
<b>Percentage of Total Federal Expenditures</b>		<b>36.79%</b>

Dollar threshold used to distinguish between type A and type B program	\$742,321
Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133?	Yes

**Family Health Centers of San Diego, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2014**

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**Section II – Financial Statement Findings**

No financial statement findings were noted.

**Section III – Federal Award Findings**

**Current Year Findings and Questioned Costs - Major Federal Award Program Audit**

No findings or questioned costs were noted on the Health Center's Major Programs for the year ended June 30, 2014.

**Prior Year Audit Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the Health Center's Major Programs for the year ended June 30, 2013.

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